

Message Text

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LIMDIS

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SUBJECT: 1977 ANNUAL POLICY AND RESOURCE ASSESSMENTS

REF: A. STATE 38356 B. STATE 38338 C. STATE 41169

PART I - US INTERESTS

1. THE UNITED STATES HAS IMPORTANT LONG-TERM
POLITICAL, ECONOMIC, AND MILITARY INTERESTS IN ITALY:

POLITICALLY, A WESTERN-ORIENTED DEMOCRATIC
ITALY IS AN ESSENTIAL UNDERPINNING OF OUR OTHER MAJOR
INTERESTS, AS WELL AS A CRUCIAL ELEMENT IN THE EAST-
WEST BALANCE OF POWER. SHOULD ITALY NOT BE ABLE TO
MAINTAIN A WESTERN-ORIENTED DEMOCRATIC GOVERNMENT,
ALL OF OUR IMPORTANT POLITICAL, ECONOMIC, AND MILITARY

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INTERESTS WOULD BE IN JEOPARDY. IN ADDITION TO THE
POSSIBLE LOSS OF ITALY TO THE WESTERN ALLIANCE AND
ITS OBVIOUS EFFECT ON THE BALANCE OF POWER, A FORMAL
COMMUNIST ROLE IN GOVERNMENT IN ITALY COULD HAVE
DESTABILIZING EFFECTS ON ITS NEIGHBORS, PARTICULARLY
SPAIN, PORTUGAL, GREECE AND FRANCE. IT COULD ALSO
MAKE WESTERN MANAGEMENT OF POST-TITO DEVELOPMENTS IN

YUGOSLAVIA MORE TROUBLESOME. THUS, A COMMUNIST GOVERNMENT IN ITALY WOULD THREATEN VITAL U.S. AND WESTERN INTERESTS. SUCH AN OUTCOME WOULD ALSO BE A MAJOR BLOW TO WESTERN SELF-CONFIDENCE SHOULD ITALY, THE SOURCE OF MUCH OF THE WEST'S CULTURAL HERITAGE, SUCCUMB TO COMMUNIST TOTALITARIANISM. THE PREVENTION OF SUCH AN OUTCOME SHOULD RANK VERY HIGH IN U.S. POLICY PRIORITIES IN 1977.

ECONOMICALLY, OUR INTEREST IN ITALY STEMS FROM THE FACT THAT ITALY IS ONE OF THE MAJOR INDUSTRIALIZED MARKET ECONOMIES OF THE WORLD. BECAUSE OF THIS, AND MORE SPECIFICALLY BECAUSE OF ITS MEMBERSHIP IN THE EUROPEAN COMMUNITY, ITALY'S POLICIES AND DEVELOPMENTS IN ITS ECONOMY NECESSARILY AFFECT THE REST OF THE INTERNATIONAL ECONOMIC SYSTEM. THE SEVERE STRUCTURAL IMBALANCE PRESENT IN THE ITALIAN ECONOMY MAKES THIS ALL THE MORE SIGNIFICANT, AS IT REQUIRES STRONG REMEDIAL ACTION, WHICH MUST BE CLOSELY COORDINATED WITH OTHER MAJOR INDUSTRIAL COUNTRIES AND WHICH WILL NEED TO BE BUTTRESSED BY ASSISTANCE FROM THE INTERNATIONAL FINANCIAL COMMUNITY. TO THE EXTENT THAT ITALY IS UNWILLING OR UNABLE TO CONTRIBUTE TO THE EFFICIENT FUNCTIONING OF THE INTERNATIONAL ECONOMIC SYSTEM BY FAILING TO ADOPT APPROPRIATE ECONOMIC POLICIES OR TO SUPPORT JOINT EFFORTS OF THE INDUSTRIALIZED COUNTRIES FOR THE COMMON GOOD, U.S. INTERESTS WILL BE ADVERSELY AFFECTED. IN A MORE DIRECT SENSE THE UNITED STATES HAS AN ECONOMIC INTEREST IN ITALY AS AN IMPORTANT MARKET FOR
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ITS INDUSTRIAL AND AGRICULTURAL COMMODITIES (\$3 BILLION) AND AS THE SITE OF A SUBSTANTIAL LEVEL OF U.S. INVESTMENT (\$2.8 BILLION).

MILITARILY, ITALY'S GEOGRAPHIC POSITION AND THE BASE FACILITIES IT PROVIDES FOR U.S. FORCES GIVE ITALY A CRUCIAL ROLE IN NATO AND FOR U.S. SECURITY INTERESTS. ITALY IS, IN FACT, THE ONLY MEDITERRANEAN COUNTRY WHERE BASING AND OTHER FACILITIES ARE AVAILABLE TO SIZEABLE U.S. FORCES. FOR NATO TO PLAY ANY ROLE SOUTH OF THE ALPS OR IN THE EASTERN MEDITERRANEAN, ITALY AND ITS FACILITIES ARE ESSENTIAL. BEYOND THE NATO AREA, ITALY'S STRATEGIC POSITION AND OUR BASE FACILITIES THERE MAKE IT POSSIBLE FOR THE UNITED STATES TO PLAY A MILITARY ROLE IN RELATION TO EVENTS IN THE MIDDLE EAST AND NORTH AFRICA.

2. THE FOREGOING DESCRIPTION OF OUR LONG-TERM

INTERESTS IN ITALY IS ESSENTIALLY CONSISTENT WITH S/P'S BROAD TRENDS FORECAST (STATE 38338). HOWEVER, S/P'S COMMENTS ON WESTERN EUROPE ARE PRIMARILY IN ECONOMIC TERMS AND, EVEN IN THAT AREA, DO NOT INCLUDE COMMENT ON OUR POLICY TOWARD OR DEVELOPMENTS IN THE EUROPEAN COMMUNITY. SIMILARLY, WHILE SOVIET DEVELOPMENTS ARE GIVEN PROMINENT ATTENTION, THE ASSUMPTION (BY SILENCE) APPEARS TO BE THAT THERE WILL BE NO SIGNIFICANT DEVELOPMENTS IN NATO. IT APPEARS TO US THAT DOMESTIC DEVELOPMENTS (E.G., ENTRANCE OF PCI OR PCF INTO GOVERNMENT) IN ITALY AND/OR FRANCE COULD HAVE AN IMPORTANT NEGATIVE IMPACT ON NATO AND, FURTHER, THAT A POLICY OF ACTIVE COOPERATION WITH OUR TRADITIONAL EUROPEAN ALLIES COULD FACILITATE THE ACHIEVEMENT OF OUR NATIONAL GOALS AND OUR ABILITY TO COPE WITH MANY OF THE POTENTIAL PROBLEMS OUTLINED IN THE S/P PAPER.

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OVER VIEW

INTRODUCTION

3. THE MAJOR ISSUES FOR U.S. POLICY TOWARD ITALY RELATE TO THE GROWTH OF COMMUNISM AND ITALY'S ECONOMIC DIFFICULTIES. THERE ARE NO CONTENTIOUS ISSUES OR POLICY DIFFERENCES OF FUNDAMENTAL IMPORTANCE IN US-ITALIAN BILATERAL RELATIONS. NEVERTHELESS, ITALY'S INTERNAL POLITICAL AND ECONOMIC INSTABILITIES PUT AT RISK ALL OF OUR IMPORTANT BASIC INTERESTS IN ITALY AND IN THE REGION. STATING A WORST-CASE POSSIBILITY, DEVELOPMENTS IN ITALY COULD TEAR THE FABRIC OF THE NATO ALLIANCE AND THE EUROPEAN COMMUNITY, AND PUT SERIOUS LIMITATIONS ON OUR MILITARY PRESENCE IN THE MEDITERRANEAN WHICH WOULD IN TURN WEAKEN THE SOUTHERN FLANK AND OUR ABILITY TO AID OUR FRIEND IN THE MIDDLE EAST IN TIME OF NEED.

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4. THE FOLLOWING PARAGRAPHS WILL EXAMINE THE
POLITICAL AND ECONOMIC ISSUES, ATTEMPT A PREDICTION
OF THE LIKELY COURSE OF EVENT OVER THE NEXT YEAR,
AND DRAW SOME IMPLICATIONS FOR U.S. POLICY.

THE ECONOMIC SITUATION

5. ITALY'S ECONOMIC "MIRACLE" WAS BASED IN LARGE
PART ON RELATIVELY CHEAP LABOR AND CHEAP ENERGY.
WITH THE DISAPPEARANCE OF THESE TWO ELEMENTS IN
1969 AND 1974, RESPECTIVELY, CHRONIC BALANCE OF
PAYMENTS PROBLEMS HAVE LED TO A "STOP-GO" ECONOMIC
GROWTH CYCLE. THE ACCUMULATION OF FOREIGN DEBT AND
WORSENING OF ITALY'S FOREIGN CREDITWORTHINESS NOW
MAKE IT IMPERATIVE THAT ITALY CUT THE RATE OF INFLATION
SO AS TO STRENGTHEN THE BALANCE OF PAYMENTS AND
STIMULATE RECOVERY OF INVESTMENT. THE HIGH INFLATION
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RATE IN ITALY IS MAINLY ATTRIBUTABLE TO A VERY LARGE
PUBLIC SECTOR DEFICIT AND RAPIDLY RISING LABOR COSTS,
APART FROM THE PRICE EFFECT OF THE 1974 OIL PRICE
INCREASE. EXCESSIVE DOMESTIC CONSUMPTION, THE VIRTUAL
DISAPPEARANCE OF NEW FOREIGN INVESTMENT, AND A LOW
LEVEL OF DOMESTIC INVESTMENT HAVE WORSENERED PROSPECTS
FOR ECONOMIC GROWTH AND EMPLOYMENT. THE ONEROUS
FINANCIAL BURDENS LEVIED ON EMPLOYERS IN THE FORM OF
SOCIAL SECURITY CONTRIBUTIONS OF VARIOUS KINDS AND
THE ENORMOUS DIFFICULTY INVOLVED IN SEEKING TO

REDUCE STAFF DURING ECONOMIC REVERSALS SERIOUSLY HAMPER THE EXPANSION OF EMPLOYMENT OPPORTUNITIES. PERIODIC POLITICAL CRISES HAVE LED TO CAPITAL FLIGHT AND ADDED TO BALANCE OF PAYMENTS PROBLEMS. A COORDINATED ATTACK ON THESE PROBLEMS WAS PUT OFF UNTIL AFTER THE PARLIAMENTARY ELECTIONS OF JUNE 20, 1976. THEREAFTER, IN THE NEGOTIATIONS LEADING TO THE FORMATION OF ANDREOTTI'S MINORITY GOVERNMENT, ATTENTION WAS DIRECTED ALMOST EXCLUSIVELY TO THAT GOVERNMENT'S PROPOSED ECONOMIC PROGRAM.

6. THE ANDREOTTI GOVERNMENT ATTEMPTED TO DEVELOP A STABILIZATION PROGRAM THAT WOULD REDUCE THE TREASURY CASH DEFICIT, SLOW DOWN THE RISE IN THE COST OF LABOR, AND BE SEEN AS AN ACCEPTABLE FIRST STEP BY ITALY'S INTERNATIONAL CREDITORS. RESTRICTIVE MONETARY AND EXCHANGE CONTROL MEASURES WERE TAKEN TO CONTROL THE MONETARY AND BALANCE OF PAYMENT SITUATION WHILE THE STABILIZATION PROGRAM WAS DEVELOPED AND PUT IN PLACE. SOME OF THESE MEASURES HAVE RECENTLY BEEN DISMANTLED WITHOUT UPSETTING THE LIRA IN THE MARKET. THE GOVERNMENT'S MEASURES ARE INTENDED TO REDUCE INFLATION TO APPROXIMATELY 17-18 PER CENT DURING 1977 AND TO REDUCE SHARPLY THE CURRENT ACCOUNT DEFICIT THIS YEAR. THE PROGRAM DOES NOT, HOWEVER, DEAL WITH THE PROBLEM OF CONTROL OVER PUBLIC SPENDING AT ALL
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LEVELS AND REFORM OF THE WAGE INDEXATION MECHANISM. UNTIL SUCH MEASURES ARE TAKE, THERE WILL NOT BE A SUFFICIENT SHIFT IN RESOURCES FROM CONSUMPTION TO INVESTMENT AND EXPORT. THE FRAGILE POLITICAL SITUATION PREVENTS THE GOI FROM TAKING ADDITIONAL MEASURES AT THIS TIME, BUT SUPPLEMENTARY ACTION MAY BE POSSIBLE LATER IN THE YEAR.

7. THE ANDREOTTI GOVERNMENT'S ABILITY TO ACT IN THE ECONOMIC SPHERE IS LIMITED BY ITS DEPENDENCE ON VOTING ABSTENTION BY THE COMMUNIST AND SMALL LAY PARTIES. THIS COMPLICATES THE PROBLEM BECAUSE PCI VIEWS ON THE SUBSTANCE OF SOME OF THE STRUCTURAL MEASURE DIFFER SIGNIFICANTLY FROM THE GOVERNMENT'S. ALSO THE PCI WISHES TO USE ITS LEVERAGE ON ECONOMIC ISSUES TO FORCE ITS WAY FURTHER INTO A FORMAL GOVERNING ROLE. THE PCI'S ABILITY TO PLAY A DECISIVE ROLE (A COMMON ASSUMPTION SIX MONTHS AGO) IS BEING LIMITED BY ITS INABILITY TO ASSURE ACCEPTANCE OF ECONOMIC REFORM MEASURES BY THE ITALIAN LABOR MOVEMENT, INCLUDING THE COMMUNIST-DOMINATED CGIL, ITALY'S LARGEST TRADE UNION. IT SHOULD NOT BE OVERLOOKED,

HOWEVER, THAT PCI ESPOUSAL OF THESE MEASURES TENDS TO LEND CREDIBILITY TO ITS ASSERTION OF ECONOMIC AND POLITICAL RESPONSIBILITY. THE COMING DEBATE ON STRUCTURAL REFORMS MAY WELL RAISE BASIC CONFLICTS IF THE PCI PUSHES HARD FOR ITS CONCEPTS WHICH WOULD MOVE THE ITALIAN ECONOMY EVEN FURTHER TOWARD FULL STATE CONTROLS. (SEE ANALYTICAL SUMMARY OF PCI VIEWS IN CIA WEEKLY SUMMARY, FEBRUARY 25, 1977.)

8. AFTER MORE THAN A YEAR OF DIFFICULT NEGOTIATIONS WITH THE IMF, AGREEMENT ON A NEW STANDBY OF SDR450 MILLION APPEARS TO BE NEARLY COMPLETED. THE STABILIZATION PROGRAM ON WHICH THE STANDBY CREDIT DEPENDS CONSISTS MAINLY OF TAX AND OTHER REVENUE MEASURES, CREDIT CONTROLS, MODEST ACTIONS ON LABOR PRODUCTIVITY

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AND LABOR COST AND CEILINGS ON PUBLIC EXPENDITURES. THE IMF STAFF HARBORS DOUBTS ABOUT THE ABILITY OF THE GOI TO MET ITS TRAGETS AND WILL ONLY MAKE THE CREDIT AVAILABLE IN TRANCHES TIED TO REVIEWS OF PERFORMANCE. THIS SHOULD HELP TO KEEP PRESSURE ON THE ITALIAN AUTHORITIES TO PERSEVERE IN ITS STABILIZATION EFFORT. THE GOI, ITSELF, HAS ALREADY COMMITTED ITSELF TO A MED-YEAR REVIEW OF PROGRESS ON THE PROGRAM LEAVING OPEN THE POSSIBILITY OF SUPPLEMENTARY ACTION. ALTHOUGH THE SIZE OF THE STANDBY IS NOT LARGE, IT IS WIDELY VIEWED AS A NECESSARY "CERTIFICATE OF GOOD CONDUCT" BY ITALY'S FOREIGN PRIVATE AND OFFICIAL CREDITORS.

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9. THE PRESIDENT HAS APPROVED A POLICY OF SUPPORT-
ING THE IMF IN ITS DEALINGS WITH THE ITALIAN GOVERN-
MENT AS THE BEST MEANS FOR PUSHING ITALY TOWARD THE
ESSENTIAL REFORMS. IN ORDER TO REINFORCE THE IMF'S
EFFORTS, THE PRESIDENT HAS ALSO APPROVED A POLICY OF
AVOIDING BILATERAL USG ASSISTANCE.

THE POLITICAL SITUATION

10 THE ITALIAN POLITICAL SCENE TODAY IS CHARACTERIZED
BY POLARIZATION AND INSTABILITY. THE COMMUNIST PARTY
(PCI) HAS GROWN, AND THE CHRISTIAN DEMOCRATIC PARTY
(DC) HAS MAINTAINED ITS STRENGTH, AT THE EXPENSE OF THE
SOCIALIST AND OTHER DEMOCRATIC LAY PARTIES. AS A RE-
SULT, ITALIANS INCREASINGLY PERCEIVE POLITICAL CHOICES
IN TERMS OF THE PCI OR THE DC. THE LAST PARLIAMENTARY
ELECTION (JUNE, 1976) PRODUCED A POLITICAL STALEMATE
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IN THE SENSE THAT THERE IS NO COHESIVE PARLIAMENTARY
MAJORITY AND THAT NEITHER THE DC NOR THE PCI (WITH 38.8 PER-
CENT AND 34.4 PERCENT OF THE VOTE, RESPECTIVELY)
HAS ENOUGH POWER TO ENFORCE ITS
WILL. THE PRESENT ANDREOTTI MINORITY
GOVERNMENT (DC ONLY) WAS THE ONLY ONE POSSIBLE AFTER
THE ELECTIONS OF LAST YEAR. WHILE IT IS TECHNICALLY AT
THE MERCY OF THE PCI FOR ITS SURVIVAL, IT HAS PROVED
MUCH STRONGER THAN ANTICIPATED AND HAS SURVIVED MANY
RUDE TESTS SOLELY FOR WANT OF ANOTHER WORKABLE POLITICAL
ALTERNATIVE.

11 A FURTHER ELEMENT CONTRIBUTING TO THE GENERAL
POLITICAL INSTABILITY IS THE GROWING COMMUNIST INFLU-
ENCE AT ALL LEVELS OF GOVERNMENT. THE PCI CONTROLS
OR HAS A DETERMINATIVE INFLUENCE IN THE LOCAL GOV-
ERNMENTS (CITY, PROVINCIAL, AND REGIONAL) IN AREAS
THAT INCLUDE 60-65 PERCENT OF ITALY'S POPULATION,
INCLUDING THE GOVERNMENTS OF ALL MAJOR CITIES EXCEPT
FOR PALERMO AND TRIESTE. IN ADDITION, THE PCI'S
STRENGTH IN PARLIAMENT, AND CHAOS THAT REIGNS

AMONG THE SMALL LAY PARITES, GIVES IT A VETO POWER
ON THE ACTIONS OF THE PRESENT DC-MINORITY GOVERNMENT.

12. DESPITE, OR PERHAPS BECAUSE OF, THE PCI'S SHARPLY
INCREASED GOVERNMENTAL ROLE, IT IS BECOMING INCREAS-
INGLY CLEAR THAT THE PARTY IS FACING SERIOUS INTERNAL
DIFFICULTIES AS IT TRIES TO INCREASE ITS ATTRACTIVENESS
TO THE MIDDLE CLASS AND TO MAINTAIN THE SUPPORT OF
ITS ORTHODOX, HARD-CORE, WORKING-CLASS BASE. AS A
RESULT, THE BLOOM OF PCI INVINCIBILITY IS BEGINNING TO
WILT. THIS HAS OCCURRED FOR A VARIETY OF REASONS:
IN PART BECAUSE OF THE PCI'S OWN INTERNAL CONTRADIC-
TIONS AS A MILITANT, REVOLUTIONARY, POLITICAL MOVE-
MENT WHICH NONETHELESS SEEKS TO ACCEDE TO POWER AS A
DEFENDER OF DEMOCRATIC, MIDDLE-CLASS VALUES, BUT ALSO
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IN PART BECAUSE IT HAS BEEN UNABLE TO DEMONSTRATE
(IN RUNNING LOCAL GOVERNMENTS) THAT IT HAS MAGIC
SOLUTIONS FOR TODAY'S DIFFICULT PROBLEMS THAT HAVE SOME-
HOW ELUDED ALL OTHER PARTIES. IN ADDITION, AS THE
PARTY MOVES TOWARD MIDDLE-CLASS RESPECTABILITY, IT
MUST INCREASINGLY TAKE INTO ACCOUNT WORKER DISSATIS-
FACTION AND THE ALIENATION OF YOUTH, A LARGE PROPORTION
OF WHICH IS UNEMPLOYED, WITHOUT REASONABLE CAREER PROS-
PECTS, AND LACKING EFFECTIVE REPRESENTATIONS IN THE
ECONOMIC MARKETPLACE.

ALTHOUGH THE HISTORIC COMPROMISE STILL REMAINS
PARTY POLICY, THE PCI LEADERSHIP NO LONGER TALKS ABOUT
IT AND PRIVATELY ADMITS THAT FOR THE PRESENT IT IS DEAD.

THE APRTY CONTINUES TO SEARCH FOR OPENINGS TO ADVANCE
ITS GOAL OF FULL PARTICIPATION IN THE NATIONAL GOVERNMENT.
DESPITE THE PROBLEMS OUTLINED ABOVE, THE PCI REMAINS A
POTENT POLITICAL FORCE WHICH CAN RELY UPON THE LARGEST,
MOST EFFICIENT, AND BEST-FINANCED PARTY ORGANIZATION
IN ITALY AND, AT LEAST TO DATE, ON AN INTENSELY LOYAL BASE.

13 ON THE OTHER SIDE OF THE LEDGER, THE PESSIMISM
AND DESPAIR THAT CHARACTERIZED THE DC DURING THE
LAST FEW YEARS OF POLITICAL DRIFT HAVE GIVEN WAY TO
A NEW-FOUND RESOLVE AND VIRTUALLY SOLID RESISTANCE
TO THE HISTORIC COMPROMISE, AND INDEED TO THE ACCEPT-
ANCE OF ANY FURTHER DEGREE OF PCI PARTICIPATION IN
GOVERNMENT, WHILE THE COURSE OF EVENTS MIGHT YET
PRODUCE A NEW SLIDE TOWARD A GOVERNMENT OF "NATIONAL
EMERGENCY," THE MOOD OF THE DC IS NOW SO HARDENED
THAT EARLY ELECTIONS APPEAR A MORE LIKELY CURSE
OF ACTION. THE DC'S STEADFAST STANCE CONTRIBUTES
SIGNIFICANTLY TO THE FREEZING OF THE CURRENT

POLITICAL BALANCE.

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BALANCE OF POWER, THE SOCIALISTS (WITH 9 PER CENT OF THE PARLIAMENTARY SEATS) COULD HOLD THE CARDS THAT WOULD DETERMINE THE FUTURE COURSE OF ITALIAN POLITICS. ALTHOUGH NOW HEADED BY A SECOND GENERATION LEADER DISPOSED TO SEEK A NEW FORMULA OF POLITICAL PARTNERSHIP WITH THE DC, THE SOCIALIST PARTY, ITSELF, SO FAR HAS BEEN UNABLE TO ESTABLISH AN INDEPENDENT IDENTITY OR TO OVERCOME ITS RESISTANCE TO ANY FORM OF COALITION WITH THE DC WHICH EXCLUDES THE PCI. RECOGNIZING THE PSI'S PIVOTAL POSITION, BOTH WE AND THE DC HAVE SOUGHT TO ENCOURAGE THOSE SOCIALISTS FIRMLY COMMITTED TO DEMOCRATIC VALUES TO SEEK A REAL AUTONOMY AND CLEAR IDENTITY. THE PSI'S INTERNAL DIVISIONS ARE SO DEEP, HOWEVER, THAT NO EARLY DEFINITION OF THE PARTY'S FUTURE CAN BE EXPECTED. MOREOVER, EARLY PARLIAMENTARY ELECTIONS WOULD PROBABLY RESULT IN A FURTHER WEAKENING OF THE PSI AND THE SMALLER DEMOCRATIC LEFT PARTIES.

15. WITH THE FUTURE POLITICAL COURSE MURKY AND

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OPEN-ENDED, AN IMPORTANT INFLUENCING FACTOR WILL BE THE EXTENT TO WHICH ITALY'S FUNDAMENTAL SOCIAL AND ECONOMIC PROBLEMS CAN BE KEPT UNDER CONTROL TO PERMIT POLITICAL CHOICES TO BE WORKED OUT RATHER THAN DICTATED BY EVENTS. ITALY'S POWERFUL LABOR MOVEMENT WILL BE CRITICAL IN THIS CONTEXT. THE UNIONS' MEMBERSHIP IS BASICALLY OPPOSED TO MAKING THE SACRIFICES THE GOVERNMENT'S (AND IMF'S) AUSTERITY PROGRAM WOULD REQUIRE, BUT THEY ARE INCREASINGLY UNEASY AT THE GROWING AWARENESS THAT THEIR WELL-BEING IS AT THE COST OF EXTENSIVE UNEMPLOYMENT (AND POLITICAL DISAFFECTION) AMONG THE YOUNG. FURTHER DETERIORATION OF PUBLIC ORDER OR A SHARP ECONOMIC DOWNTURN (WITH ATTENDANT INCREASE IN UNEMPLOYMENT AND VIOLENCE BORNE OF DESPAIR) COULD MAKE CALLS FOR AN EMERGENCY GOVERNMENT (INCLUDING THE PCI BUT EXCLUDING THE NEO-FASCIST MSI AND EXTREME LEFT PARTIES) IRRESISTIBLE.

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ON THE OTHER HAND, IF THE ANDREOTTI (OR A SUCCESSOR) GOVERNMENT IS ABLE TO ACHIEVE A DEGREE OF ECONOMIC AND SOCIAL STABILITY, THE PROSPECTS FOR A DEMOCRATIC SOLUTION WILL BE ENHANCED.

16. OUR ABILITY TO INFLUENCE THE COURSE OF EVENTS IN ITALY IS OF COURSE LIMITED. IN THE END, THE DECISIONS REST WITH THE ITALIANS, THEMSELVES. THIS IS NOT TO SAY THAT WHAT WE SAY AND DO DOES NOT HAVE A SIGNIFICANT IMPACT ON ITALIAN THINKING. OUR ATTITUDE TOWARD THE IMF'S ECONOMIC PRESCRIPTIONS AND TOWARD ITALIAN COMMUNISM AND "EURO-COMMUNISM" WILL COME UNDER MINUTE EXAMINATION IN COMING WEEKS AND MONTHS. VAGUENESS OR AMBIGUITIES IN OUR PUBLIC POSTURE ARE UNFORTUNATELY INTERPRETED NEGATIVELY.

17. THE QUESTION IS OFTEN POSED WHETHER THE PCI IS "RECOVERABLE" AS A DEMOCRATIC, POLITICAL FORCE OR WHETHER THE WESTERN EUROPEAN CP'S ARE EVOLVING THEIR OWN BRAND OF NON-LETHAL COMMUNISM. IN ANSWERING THIS QUESTION, IT SHOULD BE EMPHASIZED THAT THUS FAR THERE IS NO EVIDENCE THAT THE PCI HAS SEVERED ITS POLITICAL AND FINANCIAL CONNECTION WITH MOSCOW OR IS SEEKING TO ALTER ITS LENINIST PRINCIPLES OF "DEMOCRATIC

CENTRALISM." IN SHOR, AS BERLINGUER AND OTHERS HAVE CLEARLY AND PUBLICLY STATED IN RECENT MONTHS, THEY HAVE NO INTENTION OF TRANSFORMING THE PCI INTO A SOCIAL DEMOCRATIC PARTY IN COMMUNIST CLOTHING. WHILE THERE MAY BE A FEW PCI LEADERS WHO PERSONALLY WOULD PREFER TO SEE A DEMOCRATIC EVOLUTION OF THE PARTY, THE BALANCE OF FORCES WITHIN THE PARTY IS SUCH THAT NO SIGNIFICANT BREAK WITH MOSCOW OR CHANGE IN ORTHODOX DEMOCRATIC CENTRALISM HAS OR IS LIKELY TO OCCUR IN THE FORESEEABLE FUTURE. ACCORDINGLY, ANY PARTICIPATION IN THE NATIONAL GOVERNMENT HERE BY THE PCI, EVEN IF LED BY THE MOST "MODERATE" AND SECRET

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REASONABLE-SOUNDING OF ITS LEADERS, WOULD POSE SERIOUS RISKS FOR THE WEST AND FOR THE UNITED STATES.

18. FINALLY, IT IS CLEAR THAT ON THE COMMUNIST ISSUE, PARTICULARLY, THERE IS AND WILL BE AN INTERACTION BETWEEN ROME, APRIS, ANDRID AND ELSEWHERE IN WESTERN EUROPE. WHILE COMMUNIST ENTRY INTO AN ITALIAN GOVERNMENT COULD HAVE AN IMPORTANT IMPACT ON THE EVOLVING POLITICAL SITUATION IN FRANCE IT IS EQUALLY TRUE THAT A LEFTIST SWING IN FRANCE COULD AFFECT NEGATIVELY POLITICAL DEVELOPMENTS HERE IN ITALY. THE CUMULATIVE EFFECT OF COMMUNISTS ENTERING THE GOVERNMENTS OF FRANCE AND ITALY AT ROUGHLY THE SAME TIME COULD SERIOUSLY DESTABILIZE THE WESTERN SECURITY SYSTEM. ACCORDINGLY, IT IS IMPERATIVE THAT WE KEEP IN MIND THESE BROADER ISSUES AS WE SEEK TO GRAPPLE WITH POLICY OPTIONS FOR DEALING WITH THE POLITICAL SITUATIONS IN THE SEVERAL COUNTRIES PRINCIPALLY INVOLVED.

THE COMING YEAR

19. THE POLITICAL STALEMATE DESCRIBED ABOVE IS VERY FRAGILE. THE LACK OF A VIABLE ALTERNATIVE PROVIDES A STRONG IMPETUS AGAINST CHANGE, FOR A "CRISIS IN THE DARK" IS ANATHEMA TO ITALIAN POLITICIANS. NEVERTHELESS, CHANGE IS LIKELY TO BE FORCED UPON THEM WITHIN THE NEXT YEAR OR SO. THAT CHANGE WILL PROBABLY INITIALLY INVOLVE SOME "NEW" FORM OF COOPERATION ON ECONOMIC ISSUES SHORT OF BRINGING THE PCI INTO THE GOVERNING MAJORITY. LATER (SPRING 1978), IT MAY LEAD TO NEW PARLIAMENTARY ELECTIONS.

20. THE SITUATION IS SUFFICIENTLY FLUID AND FRAGILE THAT CHANGE COULD BE FORCED AT ANY TIME BY INTERNAL OR EXTERNAL EVENTS. A SHARP DOWNTURN IN THE ECON-

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OMIES OF THE MAJOR, INDUSTRIALIZED COUNTRIES OR
ABRUPT CHANGE IN THE EUROPEAN POLITICAL/SECURITY
BALANCE COULD HAVE DISTURBING EFFECTS IN ITALY.
SIMILARLY, UNEXPECTED DISTURBANCES ON THE DOMESTIC
SCENE, SUCH AS THE STUDENT INSURRECTION IN MID-MARCH
OR ESCALATING WORKER UNREST SHOULD THE UNIONS' RANK
AND FILE LINE THENSELVES UP ON OPPOSITION TO A GENERAL
AGREEMENT ON AUSTERITY MEASURES, COULD PRODUCE SIMILAR
RESULTS.

21. HOWEVER, APART FROM SUCH "ACCIDENTS," THE NEED
FOR ACTION DURING 1977 ON ECONOMIC STABILIZATION AND
STRUCTURAL REFORM MEASURES WILL PROBABLY FORCE THE
PRINICIPAL PROTAGONISTS (THE POLITICAL PARTIES AND

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THE LABOR UNIONS) TO FIND SOME NEW BASIS FOR
COOPERATION ON THIS SET OF ISSUES. THIS COULD TAKE

A VARIETY OF DIFFERENT FORMS, BUT THE TRICK WILL BE TO FIND A FORMULA THAT WILL GET THE SUBSTANTIVE JOB DONE WITHOUT IRREPARABLY COMPROMISING THE BASIC POLITICAL POSITIONS OF THE SEVERAL PROTAGONISTS. IN THIS EXERCISE, THERE WILL BE MORE QUESTION MARKS ABOUT THE PCI THAN ANY OF THE OTHERS. IT OBVIOUSLY DOES NOT WISH TO RETREAT TO OPEN OPPOSITION, BUT AT THE SAME TIME IS INCREASINGLY TROUBLED BY THE INTERNAL DISSENT WHICH ITS SUPPORT OF THE PRESENT GOVERNMENT HAS STIMULATED. THE PCI IS PAYING A HIGH PRICE IN ITS BID FOR ACCEPTANCE AND RESPECTABILITY. HOW LONG IT CAN(OR WILL) AFFORD TO DO SO, IT IS IMPOSSIBLE TO PREDICT.

22. THE OTHER UNCERTAINTY, WHICH COULD DRASTICALLY
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CHANGE THE POLITICAL OUTLOOK, IS HOW LONG IT WILL TAKE THE PSI TO WORK OUT ITS INTERNAL CONFLICTS TO THE POINT WHERE IT WILL BE ABLE TO MAKE AUTONOMOUS CHOICES AND PARTICIPATE CONSTRUCTIVELY IN A GOVERNMENT COALITION. OUR JUDGMENT IS, REGRETTABLY, THAT THIS IS NOT LIKELY TO HAPPEN WITHIN THE NEXT YEAR. NEVERTHELESS, THE PSI IS THE LEAST PREDICTABLE OF ITALIAN PARTIES.

23. THE POSSIBILITY OF NEW PARLIAMENTARY ELECTIONS WILL HAUNT AND CONDITION ALL POLITICAL MANEUVERS DURING THE MONTHS AHEAD. NO ONE CLAIMS TO WANT EARLY ELECTIONS, BUT THE DC SEEMS LESS WORRIED AT THE PROSPECT THAN ANY OF THE OTHERS. IT IS AT THE MOMENT MORE UNITED AND OPTIMISTIC THAN IT HAS BEEN FOR A LONG TIME. IT ALSO PERCEIVES ITSELF AS BENEFITTING FROM A CONSERVATIVE BACKLASH PRODUCED BY FEAR OF COMMUNISM, THE PCI'S INTERNAL TROUBLES, LABOR'S INTRANSIGENCE ON ECONOMIC ISSUES, AND THE SHARP INCREASE IN POLITICAL VIOLENCE. AT THE PRESENT TIME, IT APPEARS THAT THE DC WOULD OPT FOR ELECTIONS RATHER THAN COMPROMISE ITSELF POLITICALLY IN THE NEGOTIATIONS ON ECONOMIC MEASURES.

24. WHILE THE PRESENT POLITICAL STALEMATE IS THE RESULT OF MANY FACTORS (THE LAST ELECTION, PSI AMBIVALENCE, SHARP DC/PCI DIFFERENCES), NEXT YEAR'S ELECTION OF A SUCCESSOR TO PRESIDENT LEONE BOTH CONTRIBUTES TO THE STALEMATE AND IS SEEN BY MANY AS THE OCCASION FOR RESOLVING IT. FOR THESE LATTER REASONS, IT IS POSSIBLE THAT THE DC WILL SEEK NEW PARLIAMENTARY ELECTIONS NEXT SPRING, ASSUMING THAT THE GENERAL POLITICAL CLIMATE CONTINUES TO IMPROVE

FOR THE DC. THE PRIMARY PURPOSE IN SEEKING ELECTIONS
AT THAT TIME WOULD BE TO INCREASE THE DC'S REPRESENTATION IN PARLIAMENT IN PREPARATION FOR THE
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PRESIDENTIAL ELECTION IN 1978. ALTERNATIVELY
(OR, POSSIBLY, ADDITIONALLY), THE DC MAY ATTEMPT
TO PERSUADE LEONE TO RESIGN WELL BEFORE HIS TERM
EXPIRES IN DECEMBER, 1978. WHILE THE PRESIDENT OF
THE REPUBLIC HAS FEW SUBSTANTIVE POWERS, THE PARTIES
ATTACH CONSIDERABLE IMPORTANCE TO THE OFFICE AND
THE 1978 PRESIDENTIAL ELECTION WILL BE THE OCCASION
FOR ENDLESS POLITICAL HORSE-TRADING WHICH COULD, IN
THE END, FACILITATE FINDING A WAY OUT OF THE PRESENT
IMPASSE.

25. ANOTHER INFLUENTIAL FACTOR, THE IMPORTANCE OF
WHICH WILL DEPEND ON WHETHER NEW PARLIAMENTARY
ELECTIONS HAVE BEEN HELD, MAY BE THE DIRECT ELECTIONS
FOR THE EUROPEAN PARLIAMENT IN THE SUMMER OF 1978.
THEY WILL PROVIDE A MORE OR LESS ACCURATE MEASURE
OF THE PUBLIC'S PULSE AND COULD, AS A RESULT, CONTRIBUTE TO THE RESOLUTION OF THE PRESENT STALEMATE.

26. IN SUMMARY, WE EXPECT THE COMING YEAR TO BE ONE
OF ECONOMIC DIFFICULTIES AND POLITICAL INSTABILITY.
ON THE BEST OF HYPOTHESES, INFLATION COULD BE BROUGHT
DOWN BUT AT THE EXPENSE OF CONTINUED HIGH UNEMPLOYMENT
AND LOW GROWTH. POLITICALLY, IT IS LIKELY TO BE
A YEAR OF ALARMS AND EXCURSIONS, WITH DISASTER
ALWAYS JUST AROUND THE CORNER. AT THE TIME OF
WRITING THIS REPORT, THERE IS AT LEAST AN EVEN CHANCE
THAT THE PRESENT GOVERNMENT, OR SOMETHING VERY LIKE
IT, WILL SURVIVE UNTIL NEXT WINTER. IF THE PRESENT
TREND CONTINUES UNTIL THEN, PREPARATIONS WILL PROBABLY
BE BEGUN FOR NEW ELECTIONS, IN PART BECAUSE THE
PRESENT GOVERNMENT FORMULA WILL HAVE OUTLIVED ITS
USEFULNESS AND, IN PART, TO SET THE STAGE FOR THE
PRESIDENTIAL ELECTION.

IMPLICATIONS FOR U.S. POLICY

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27 GIVEN OUR BASIC OBJECTIVE OF HAVING, IN ITALY,
A POLITICALLY AND ECONOMICALLY STABLE, WESTERN-ORIENTED

DEMOCRACY CAPABLE OF BEING A FULL CONTRIBUTING MEMBER
OF THE NATO ALLIANCE AND OF THE EUROPEAN COMMUNITY,
THE VERY FRAGILITY OF THE ITALIAN POLITICAL SCENE
POSES DANGERS AND RISKS OF GREAT IMPORT. OUR BEHAVIOR
AND CLARITY OF PURPOSE (AND, TO A LESSER EXTENT, THAT
OF OUR EUROPEAN ALLIES) WILL HAVE AN IMPACT ON THE
ITALIAN SCENE. OUR (AND THE EC'S) ABILITY TO HELP
ECONOMICALLY WILL CONTRIBUTE NOT ONLY TO ITALY'S
ECONOMIC STABILITY AND RECOVERY BUT ALSO TO THE STRENGTH
OF THE NON-COMMUNIST PARTIES. OUR ATTITUDES TOWARD
EUROPEAN COMMUNISM AND, PARTICULARLY, TOWARD THE ITALIAN

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DOMMUNIST PARTY, COULD IF MISINTERPRETED CONTRIBUTE
TO THE STRENGTHENING OF THE PCI AND THE WEAKENING
OF THE DC.

28. SHOULD THE PCI PARTICIPATE IN A NATIONAL COALI-
TION GOVERNMENT IN ITALY, SUCH PARTICIPATION WOULD
THREATEN VITAL AMERICAN (AND WESTERN) POLITICAL,
ECONOMIC, AND MILITARY INTERESTS. DESPUHE THE PCI'S
PROFESSED GOOD INTENTIONS WITH REGARD TO WESTERN
INSTITUTIONS AND VALUES (ABOUT THE SINCERITY OF

WHICH MOST OBSERVERS REMAIN UNCONVINCED), THE IMPORT-
ANCE OF THE INTERESTS INVOLVED MAKES THE RISKS NOT
WORTH RUNNING. ACCORDINGLY, WHILE WE MUST AVOID BOTH
THE FACT AND APPEARANCE OF INTERFERENCE IN ITALIAN
POLITICAL PROCESSES, WE SHOULD NEVERTHELESS DEMONSTRATE
THAT WE HAVE A STRONG PREFERENCE THAT ITALY BE GOVERNED
WITHOUT PCI PARTICIPTION. WE SHOULD ALSO SEEK WAYS TO
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HELP ASSUE ITALY'S ECONOMIC STABILITY AND TO ENCOURAGE
THE NON-COMMUNIST PARTIES TO FIND SOLUTION TO ITALY'S
MANY PROBLEMS THAT WILL NOT REQUIRE THE PARLIAMENTARY
SUPPORT OR COOPERATION OF THE COMMUNIST PARTY.

OBJECTIVES AND COURSE OF ACTION

29 TO HAVE ITALY REMAIN A WESTERN-ORIENTED DEMOCRACY AND TO
BE AN ACTIVE, WILLING, AND EFFECTIVE PARTICIPANT IN NATO
AND THE EC.

AN OBJECTIVE STATED IN SUCH GENERAL TERMS COULD IN
MOST COUNTRIES COVER A HOST OF ISSUES, BUT IN ITALY
AT THE PRESENT TIME THE ISSUES OF WESTERN ORIENTA-
TION AND DEMOCRACY ARE BEING DRAWN MORE AND MORE
SHARPLY IN BOTH POLITICAL AND ECONOMIC TERMS. THE
BASIC DECISIONS AND CHOICES MUST BE MADE BY THE ITALIANS,
THEMSELVES. WHILE THE UNITED STATES AND OTHER MEMVERS
OF THE ALLIANCE ARE NOT IN A POSITION TO CONTROL THE
SITUATION EVEN IF WE WANTED TO DO SO, THE UNITED STATES
AND OTHER COUNTRIES CAN, WITHIN LIMITS, INFLUENCE THE
SITUATION FOR BETTER OR FOR WORSE. BY MEANS SUCH AS
THOSE INDICATED BELOW, WE CAN ENCOURAGE AND REINFORCE
ITALY'S DEMOCRATIC PARTIES IN THE POLITICAL STRUGGLE
AND, BOTH DIRECTLY AND THROUGH THE IMF, ENCOURAGE
THOSE SAME PARTIES TO MAINTAIN AND REIVGORATE THE
PRIVATE SECTOR OF THE ECONOMY, TO DO EVERYTHING
POSSIBLE TO AVOID FURTHER ECONOMIC DETERIORATION, AND
TO AVOID MEASURES THAT PUSH THE ECONOMY FURTHER TOWARD
STATE-CONTROL. WHILE MANY OF THE PROBLEMS RELATE TO
OUR RELATIONS WITH THE DEMOCRATIC PARTIES OF ITALY,
AT THE SAME TIME WE MUST CAREFULLY MEASURE THE SUB-
STANCE AND STYLE OF OUR RELATIONS WITH THE COMMUNIST PARTY.

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THE FOLLOWING ARE SOME OF THE PRACTICAL MEASURES
WE CAN AND SHOULD TAKE TO ACHIEVE OUR OBJECTIVES:

-- TAKE EVERY OPPORTUNITY TO EMPHASIZE THE
IMPORTANCE ITALY HAS FOR THE UNITED STATES AS A CON-
STRUCTIVE PARTNER IN SECURITY, POLITICAL, AND ECONOMIC
RELATIONSHIPS WITHOUT AT THE SAME TIME LEAVING ANY
DOUBT OF OUR FIRM CONVICTION THAT THE FUNDAMENTAL
RESPONSIBILITY FOR SOLVING ITALY'S DOMESTIC PROBLEMS
LIES IN ITALIAN HANDS.

-- WHILE AVOIDING ANY BASIS FOR CHARGES OF INTER-
FERENCE, TAKE EVERY OPPORTUNITY TO DEMONSTRATE OUR
OWN STRONG PREFERENCE FOR AN ITALIAN GOVERNMENT RUN
BY DEMOCRATIC PARTIES.

-- INVOLVE THE ITALIAN GOVERNMENT AT EVERY OPPOR-
TUNITY IN CONSTRUCTIVE POLITICAL, ECONOMIC, AND
MILITARY PROGRAMS SO AS TO BUILD AND REINFORCE ITALY'S
INSTITUTIONAL LINKS WITH THE WEST.

-- BOTH DIRECTLY AND IN COOPERATION WITH OTHER
ALLIES (ESPECIALLY BRITAIN AND GERMANY), ENCOURAGE
ITALY'S DEMOCRATIC PARTIES (ESPECIALLY THE CHRISTIAN
DEMOCRATS AND THE SOCIALISTS) TO REFORM AND RENEW
THEMSELVES IN SUCH A WAY AS TO BE ABLE TO DEAL
DEMOCRATICALLY WITH THE CONTEMPORARY PROBLEMS OF ITALY,
AND TO MAKE CLEAR TO THEM THAT WE ARE NOT INDIFFERENT
TO ITALY'S POLITICAL CHOICES AND THAT WE DO NOT FAVOR
ACCOMMODATION WITH THE COMMUNISTS.

-- WITHOUT IN ANY WAY SIGNALLING OUR ACCEPTANCE
OR APPROVAL OF PCI PARTICIPATION IN THE NATIONAL
GOVERNMENT, WE SHOULD IMPLEMENT GRADUALLY A PROGRAM
OF BROADER CONTACTS WITH THE PCI. IN DOING SO, WE
SHOULD SEEK TO GAUGE THE SIGNIFICANCE OF THE PCI INTERNAL
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DEVELOPMENTS AND COUNTER ANY ATTEMPT TO USE OUR OPENNESS AS
SIGNALLING U.S. ACCEPTANCE OF THE CPI'S DEMOCRATIC CLAIMS.

-- SEEK, PRIMARILY THROUGH AN ACTIVE CULTURAL/
EDUCATIONAL/INFORMATION PROGRAM, (A) TO ENHANCE THE
IMAGE OF THE UNITED STATES AS A VIGOROUS, PLURALISTIC
SOCIETY FIRMLY COMMITTED TO TRADITIONAL WESTERN
DEMOCRATIC VALUES AND AS A RELIABLE NATO PARTNER
WHICH IS NOT INDIFFERENT TO ITALY'S POLITICAL AND
ECONOMIC CHOICES, (B) TO DEMONSTRATE THROUGH THE
AMERICAN EXAMPLE THAT IT IS POSSIBLE FOR A DEMOCRACY

TO COPE EFFECTIVELY WITH THE COMPLEX PROBLEMS OF A
MODERN, INDUSTRIAL SOCIETY, (C) TO ENCOURAGE ITALIAN
EFFORTS TO BREAK THE LEFTIST/RADICAL HEGEMONY OVER
ITALY'S CULTURAL LIFE, (D) TO DEMONSTRATE U.S. LEADERSHIP

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ON HUMAN RIGHTS, DISARMAMENT, AND WORLD ECONOMIC
ISSUES, AND(E) TO STIMULATE ITALIAN AWARENESS OF
THE IMPLICATIONS OF THE VARIOUS CHOICES TO BE MADE
ON THE PIVOTAL QUESTIONS RELATING TO ITALY'S FUTURE
AND ITS RELATIONS WITH THE WEST.

30. TO ENCOURAGE ITALY TO RESOLVE THE SERIOUS
STRUCTURAL WEAKNESSES IN THE ITALIAN ECONOMY.

IF ITALY IS UNABLE TO SOLVE ITS BASIC BALANCE OF PAY-
MENTS AND DOMESTIC INFLATION PROBLEMS SO AS TO GET
BACK ON A PATH OF STEADY NON-INFLATIONARY GROWTH,
IT WILL BE PUSHED DOWN THE PATH OF TRADE RESTRICTIONS
AND LIRA DEVALUATION, WHICH WILL MAKE IT INCREASINGLY
DIFFICULT TO CARRY OUT ITS OBLIGATIONS FOR INTERNATIONAL
ECONOMIC COOPERATION AS A PARTNER IN THE EC, GATT AND
IMF. IN ADDITION, IT WILL CONTINUE TO REQUIRE EXTERNAL

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FINANCIAL ASSISTANCE FROM THE INTERNATIONAL FINANCIAL INSTITUTIONS, WHICH WILL INEVITABLY BECOME A SOURCE OF DIFFICULTY AND FRICTION WITH THE MAJOR CONTRIBUTORS, I.E., THE UNITED STATES AND GERMANY. THIS CAN ONLY LEAD TO A RELATIONSHIP OF TUTELAGE AND EPENDENCY, WHICH WOULD BE UNHEALTHY FOR BOTH ITALY AND THE UNITED STATES. THE TREASURY ATTACHE'S OFFICE BEARS THE MAJOR RESPONSIBILITY FOR PURSUING THIS OBJECTIVE THROUGH ITS ANALYSES AND ASSESSMENTS OF DEVELOPMENTS IN THE ITALIAN ECONOMY AND CONTRIBUTIONS TO EMBASSY POLICY RECOMMENDATIONS.

COURSES OF ACTION

-- CONTINUE ANALYSIS AND ASSESSMENT OF DEVELOPMENTS IN THE ITALIAN ECONOMY SO AS TO PROVIDE BALANCED REPORTS AND RECOMMENDATIONS TO ASSIST IN U.S. POLICY DECISIONS.

-- MAINTAIN CONTACTS AT ALL ELVELS OF THE ECONOMIC AND POLITICAL SPECTRUM (NOT ONLY WITH THOSE PERSONS IMMEDIATELY RESPONSIBLE FOR ECONOMIC POLICY) SO AS TO INCREASE OUR UNDERSTANDING OF ITALIAN ECONOMIC DEVELOPMENTS AND POLICIES AND TO EXPLAIN USG ECONOMIC VIEWS.

-- EXPAND CONTACTS WITH THE ITALIAN LABOR MOVEMENT GEARED TO PROMOTING A DIALOGUE ON ECONIMIC ISSUES.

-- DIRECT BREATHER ATTENTION IN EMBASSY INFORMATION PROGRAMS TO ECONOMIC ISSUES, ESPECIALLY AIMED AT USAGE BY ITALIAN MEDIA.

-- FACILITATE TRIPS TO STUDY U.S. ECONOMIC SYSTEMS, ESPECIALLY IN THE FIELD OF PUBLIC FINANCE, FINANCIAL MARKETS AND LABOR RELATIONS.

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31 TO ASSURE EFFECTIVE OPERATIONAL USE OF U.S. MILITARY INSTALLATIONS IN ITALY FOR NATO AND OTHER U.S. OBJECTIVES.
EVEN WITHOUT THE PCI IN POWER, THE LARGE AND PERHAPS GROWING INFLUENCE OF THE LEFT IN ITALY WILL HEAVILY

CONDITION THE WILLINGNESS, INDEED THE ABILITY, OF THE GOI TO CONTINUE ITS GENERALLY COLLABORATIVE POLICY IN REGARD TO U.S. MILITARY INSTALLATIONS AND OPERATIONS IN ITALY. WITH THAT IN MIND AND WITHOUT PERMITTING ITALY TO DISREGARD ITS OBLIGATIONS UNDER EXTANT AGREEMENTS (NAT, SOFA, BIA), WE SHOULD:

COURSES OF ACTION

- MINIMIZE REQUESTS FOR NEW OR EXPANDED ACTIVITIES OR INSTALLATIONS OF MARGINAL MILITARY UTILITY.
- TO THE EXTENT POSSIBLE, PUT HIGH PRIORITY NEEDS TO THE GOI PRIOR TO SECONDARY REQUIREMENTS.
- TIME AND PACKAGE SUCH REQUESTS SO AS TO GENERATE MAXIMUM COOPERATION (OR MINIMUM RESISTANCE) IN THE GOI.

32 ENHANCED ITALIAN COOPERATION IN THE FORMULATION OF A CONSENSUS OF INTERNATIONAL ECONOMIC ISSUES.

ITALY'S POSITION AS ONE OF THE ECONOMICALLY AND INDUSTRIALLY LARGEST OF THE WESTERN COUNTRIES AND ITS MEMBERSHIP IN VIRTUALLY ALL MAJOR INTERNATIONAL INSTITUTIONS DEALING WITH ECONOMIC ISSUES, PLUS ITS STATUS AS ONE OF THE "BIG FOUR" IN THE EUROPEAN COMMUNITIES (EC), CONTRIBUTE TO ITS CAPABILITIES FOR INFLUENCING FORMULATIONS, BOTH PROCEDURAL AND SECRET

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SUBSTANTIVE, FOR DEALING WITH INTERNATIONAL ISSUES. ITALY HAS TENDED TO TAG ALONG WITH AN EC CONSENSUS AND TO AVOID TAKING INITIATIVES, ESPECIALLY THOSE THAT MIGHT ISOLATE ITALY OR INJURE ITS TRADE RELATIONS. THERE IS ALSO A TENDENCY FOR ITALY TO CONCENTRATE ON ITS OWN INTERESTS, NARROWLY DEFINED, PARTLY FOR TRADITIONAL REASONS AND PARTLY BECAUSE OF PREOCCUPATION WITH CURRENT DOMESTIC POLITICAL AND ECONOMIC PROBLEMS. THESE PROBLEMS RECENTLY, HOWEVER, HAVE HEIGHTENED THE COUNTRY'S CONSCIOUSNESS OF ITS RELATIONSHIPS TO THE EC, OPEC, ARABS, EASTERN EUROPE, AND OTHER COUNTRIES, INCLUDING THE UNITED STATES. THIS HEIGHTENED CONSCIOUSNESS CAN AFFECT ITALY'S POSITIONS, FOR GOOD OR ILL, ON THE VARIOUS INTERNATIONAL ECONOMIC ISSUES.

COURSES OF ACTION

-- WE SHOULD CONTINUE TO MAINTAIN CLOSE RELATIONS AND A MEANINGFUL DIALOGUE WITH ITALIAN GOVERNMENT OFFICIALS AND OTHER POLICY-MAKERS THAT DEAL WITH INTERNATIONAL ECONOMIC ISSUES TO INFLUENCE ITALY, TO THE EXTENT POSSIBLE, TO TAKE ACTIONS AND ADOPT POLICIES COMPATIBLE WITH OUR OWN.

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-- THE UNITED STATES SHOULD LOOK FOR OPPORTUNITIES ARISING FROM NEW DEVELOPMENTS IN ITALY'S RELATIONSHIP WITH THE EC (AND PROSPECTIVE EC MEMBERS), EASTERN EUROPE, THE ARAB COUNTRIES, AND OTHER AREAS TO ENHANCE ITALY'S SENSE OF RESPONSIBILITY AND DEDICATION TO OPEN LIBERAL, ECONOMIC SYSTEMS.

-- THE UNITED STATES SHOULD CONTINUE TO SEEK ITALY'S COOPERATION WITHIN THE INTERNATIONAL ENERGY AGENCY AND ON INTERNATIONAL ENERGY MATTERS IN GENERAL. AS ITALY IS AMONG THE MOST VULNERABLE OF WESTERN, INDUSTRIALIZED COUNTRIES TO IMPORTED ENERGY COST INCREASES AND TO SHORTAGE, THE UNITED STATES SHOULD SEEK TO DEVELOP MORE EFFECTIVE COOPERATION, WHETHER MULTILATERAL OR BILATERAL, TO MEET ITALY'S

PROBLEMS ARISING FROM ITS ENERGY DEPENDENCE.

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33. TO MAINTAIN AND ENCOURAGE THE CURRENT ITALIAN POSTURE OF COLLABORATION WITH THE UNITED STATES ON INTERNATIONAL POLITICAL ISSUES.

WITH FEW EXCEPTIONS ITALY SUPPORTS U.S. POLICY ON INTERNATIONAL POLITICAL QUESTIONS. BEYOND UNDERLYING HISTORIC REASONS, IT IS IN THE ITALIAN INTEREST TO DO SO, PARTICULARLY WHEN THE U.S. VIEWPOINT PARALLELS THAT OF NATO OR OF THE EC. THIS COURSE PERMITS ITALY TO FIND AND JOIN THE LARGE, STRONG CONSENSUS IN WHICH IT TAKES SHELTER AND COMFORT, WHICH MUTES DOMESTIC OPPOSITION, MAGNIFIES ITS INTERNATIONAL WEIGHT, MINIMIZES THE RISKS ENTAILED IN A MORE INDEPENDENT COURSE OF ACTION, AND ENHANCES THE POLITICAL, ECONOMIC AND SECURITY RETURNS WHICH FLOW FROM A COLLABORATIVE POLICY. WE SHOULD NOT EXPECT ITALY TO LEAD OR INNOVATE IN NATO OR THE EC, BUT IT WILL BE A FRIENDLY AND HELPFUL INTERLOCUTOR WHEN THE U.S. VIEW DEVIATES FROM THAT OF ITS PARTNERS. THE ITALIAN VIEW WILL, OF COURSE, NOT ALWAYS COINCIDE COMPLETELY WITH OURS; HOWEVER, WHEN WE HAVE ACCOMMODATED THE EC OR THE NATO CONSENSUS, WE WILL HAVE ALIGNED THE ITALIANS WITH US.

COURSES OF ACTION

-- ON MATTER OF SIGNIFICANT CONCERN TO ITALY, CONSULT WHILE OUR DECISION IS STILL IN THE FORMATIVE STAGE. WHEN OUR DECISION IS IN DISTINCT VARIANCE FROM THE ITALIAN VIEW, EXPLAIN OUR RATIONALE FULLY.

-- REINFORCE SUCH CONSULTATION, WHICH WILL NORMALLY BE IN A MULTILATERAL FORUM (OR WASHINGTON), WITH PARALLEL OR SUPPLEMENTARY DEMARCHES BY THE EMBASSY IN ROME.

-- WHILE ROME NEED NOT BE A MEDITERRANEAN MECCA
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FOR TRAVELLING SENIOR AMERICAN OFFICIALS CAREFULLY SELECTED AND TIMED VISITS BY IMPORTANT AMERICANS WILL GO FAR TO KEEP THE GOI OPEN AND RECEPTIVE TO OUR VIEWS.

34. RESOLUTION, OR AT LEAST DAMAGE-LIMITING,
OF BILATERAL ECONOMIC PROBLEMS.

WE FACE, AND WILL CONTINUE TO FACE, CONTENTIOUS
BILATERAL ECONOMIC PROBLEMS. THE MOST SERIOUS OF
THESE ARE IN THE FIELD OF CIVIL AVIATION, WHERE ITALY
MIGHT DENOUNCE THE BILATERAL CIVIL AIR AGREEMENT
WITH THE UNITED STATES OR AT LEAST TAKE ACTIONS THAT
THE UNITED STATES WOULD CONSIDER A SERIOUS BREACH
OF THE BILATERAL. SPECIFIC TRADE PROBLEMS BETWEEN
THE UNITED STATES AND ITALY OR BETWEEN THE UNITED STATES
AND ITALY/EC OCCASIONALLY ARISE. THESE PROBLEMS HAVE
ACQUIRED GREATER SIGNIFICANCE RECENTLY IN THE CONTEXT
OF RISING CONCERN ABOUT TRADE PROTECTION AT A TIME
WHEN MANY ECONOMIES ARE IN RECESSION OR NEAR STAGNATION.

COURSES OF ACTION

-- MAKE EVERY EFFORT TO REDUCE TENSIONS AND
FRICTIONS CASUED BY OUTSTANDING CIVIL AVIATION ISSUES
BOTH THROUGH A REDOUBLED EFFORT TO ARRIVE AT RESOLUTION
OF AT LEAST A FEW ISSUES AT A TIME AND BY PERSUADING
THE ITALIAN CIVIL AVAITION AUTHORITIES THAT THEIR
INTEREST CAN BEST BE SERVED BY A REASONABLE NEGOTIATING
STANCE.

-- WITH REGARD TO SPECIFIC TRADE ISSUES, WHILE
ENSURING THAT LEGITIMATE U.S. INTERESTS ARE PRE-
SERVED, WE SHOULD MAKE EVERY EFFORT TO REDUCE
FRICTIONS BETWEEN OUR TWO GOVERNMENTS AND ENSURE THAT
U.S. TRADE MEASURES TAKE INTO ACCOUNT THE EFFECT ON
OVERALL U.S. INTERESTS IN ITALY.

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35. TO INDUCE THE GOI TO ACCORD A SUBSTANTIALLY
HIGHER BUDGETARY PRIORITY TO COMMON DEFENSE
NEEDS, INCLUDING UPGRADING ITW OWN MILITARY
ESTABLISHMENT, AND PARTICIPATION IN HIGH PRIORITY
NATIO PROJECTS.

ITALY'S WILLINGNESS TO MAKE GREATER CONTRIBUTIONS
TO THE DEFENSE OF THE ALLIANCE WILL BE DICTATED IN
LARGE PARR BY THE EXTENT TO WHICH IT ACHIEVES, OR
FAILS TO ACHIEVE, SUBSTANTIAL ECONOMIC RECOVERY, AND
BY THE BALANCE OF POWER IN THE PARLIAMENT. ON NEIGHLF OF#

FRONTS CAN ONE LOOK TO THE FUTURE WITH
CONFIDENCE. HOWEVER, EVEN ASSUMING CONTINUATION OF
THSX# ECONOMIC LEVEL AND OF THE MINORITY, ONE-PARTY

GOVERNMENT, THE USG AND ITALY'S OTHER PARTNERS
IN THE ALLIANCE SHOULD DO THEIR BEST TO STIMULATE
SIGNIFICANT INCREASES IN ITALIAN DEFENSE BUDGETS.

COURSES OF ACTION

-- IN APPROACHING THE GOI, EMPHASIZE THE
COMMONALITY OF THE NATO DEFENSE EFFORT, AND THE

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USMISSION NATO

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LIMDIS

NEED FOR ITALY TO CARRY ITS FAIR SHARE OF THE
LOAD. EMPHASIZE THE NATO IDENTITY OF U.S. FACILITIES
AND OPERATIONS, EXTENT OR PROPOSED, IN ITALY.

--SORT OUT OUR OWN PRIORITIES FOR ITALY
(CURRENT EXAMPLE: AUGMENTED INFRASTRUCTURE VS. AWACS
VS. UPGRADED MATERIEAL FOR GOI ARMED FORCES), AND
DETERMINE WHETHER THESE PROJECTS SHOULD BE PRESSED ON
THE GOI SERIATIM OR CONCURRENTLY.

--ENCOURAGE A RE-EXAMINATION IN NATO OF ITALIAN

CONTENTION THAT THE UNSTABLE AND DANGEROUS SOUTHERN FLANK IS BEING NEGLECTED FOR THE RELATIVELY STABLE CENTER. RECONSIDER INFRASTRUCTURE PRIORITIES WITH A VIEW TO INCREASING ITALIAN PROGRAM. EVEN SHOULD THE RESULTS PROVE MINIMAL, WE WILL BENEFIT BY HAVING OFFERED THE GOI A NEW HEARING.

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-- AS U.S. AUGMENTATIONS TO NATO ARE DEVELOPED, CONSIDER EARLY IN THE PROCESS HOW AND TO WHAT EXTENT THEY MIGHT BE USED IN ARGUMENTATION WITH THE GOI TO ENCOURAGE GREATER ITALIAN CONTRIBUTIONS. CONTINUE, IN ANY EVENT, TO EMPHASIZE THAT STRENGTHENING THE CENTER (OR THE NORTH) ADDS TO, AND DOES NOT DETRACT FROM, DEFENSE OF THE SOUTH.

--ENCOURAGE GOI POLICYMAKERS TO ADD INFLATION GUARANTEES (AS THE DANES HAVE NOW DONE) TO FUTURE MILITARY EQUIPMENT BUDGETS, INCLUDING THE PENDING BILL FOR THE ARMY.

36. EXPANSION OF U.S. EXPORTS TO ITALY AND OF THE U.S. SHARE OF THE MARKET.

THE ITALIAN MARKET IS IMPORTANT TO THE UNITED STATES-- U.S. EXPORTS AMOUNTED TO ABOUT \$3.3 BILLION IN BOTH 1975 AND 1976 (REPRESENTING 8.7 PER CENT OF ITALIAN IMPORTS IN 1975 AND 7.7 PER CENT IN 1976), THUS MAKING ITALY ONE OF THE LARGEST CUSTOMERS OF THE UNITED STATES. WE EXPECT AN INCREASE IN U.S. EXPORTS TO ITALY AND ARE MODERATELY OPTIMISTIC ABOUT AN INCREASE IN THE U.S. SHARE OF THE ITALIAN MARKET IN COMING YEARS.

COURSES OF ACTION

-- MAKING MAXIMUM USE OF THE MILAN TRADE CENTER, FORMULATE AND EXECUTE A COUNTRY COMMERCIAL PROGRAM FOR THE PROMOTION OF U.S. EXPORTS TO ITALY, WHICH CONCENTRATES ON U.S. PRODUCTS HAVING THE HIGHEST MARKET POTENTIAL IN ITALY AND PROVIDES THE OPTIMUM USE OF AVAILABLE MISSION RESOURCES.

--ACTIVELY PROMOTE THE EXPORT OF BOTH BASIC

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AGRICULTURAL COMMODITIES (PRIMARILY THROUGH THE USDA MARKET DEVELOPMENT COOPERATION PROGRAM) AND OF PROCESSED FOODS.

37. TO CONTRIBUTE TO ITALIAN POLITICAL DEVELOPMENT BY STIMULATING DIALOGUE ON IMPORTANT PRESENT AND FUTURE QUESTIONS AND BY HELPING ITALIANS OBTAIN INFORMATION THEY NEED TO MAKE WISE CHOICES.

IT GOES WITHOUT SAYING THAT THE EVER-PRESENT DANGER OF ACCUSATIONS OF INTERVENTION MUST BALANCE OUR EFFORTS TO MAKE THE US-ITALIAN DIALOGUE MEANINGFUL AND RELEVANT.

COURSES OF ACTION

--STIMULATE PUBLIC DIALOGUE ON PIVOTAL QUESTIONS OF ITALY'S FUTURE AND ITS RELATIONS WITH THE WEST.

-- HELP ITALIANS BENEFIT FROM AMERICAN SOCIO-POLITICAL EXPERIENCE THROUGH DIALOGUE, AND DEVELOP INFORMATION SOURCES FROM WHICH THEY MAY RECEIVE THE INFORMATION THEY NEED:

-- RELATE CERTAIN OF THE MISSION'S PUBLIC PROGRAMS TO IMMEDIATE ITALIAN CONCERNS AND TO THE BROAD FRAMEWORK OF CONCERNS COMMON TO THE WESTERN COMMUNITY.

-- SEEK WAYS TO IDENTIFY THE AMERICAN IMAGE IN ITALY WITH PROGRESS AND CHANGE BY STIMULATING COOPERATION IN FIELDS OF HIGH VISIBILITY SUCH AS ADMINISTRATIVE REFORM, DECENTRALIZATION, UNIVERSITY REFORM, JUDICIAL REFORM, ETC.

-- BRING THE RESOURCES OF AMERICAN SCHOLARSHIP, PARTICULARLY IN SOCIAL SCIENCE, TO BEAR ON DERIVING
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AND PUBLICIZING A DEEPER VIEW OF THE ITALIAN DELEMMA.

-- FOSTER IN ITALIAN UNIVERSITIES THE INITIATION AND GROWTH OF AN INTERDISCIPLINARY APPROACH TO TEACHING AND RESEARCH IN THE FIELD OF INTERNATIONAL RELATIONS;

-- HELP ITALIANS UNDERSTAND THE VITAL ROLE OF A PRIVATE SECTOR IN THEIR COUNTRY, AS WELL AS IN THE UNITED STATES, THROUGH COOPERATIVE PROGRAMS WITH U.S. BUSINESS CORPORATIONS AND MULTINATIONALS.

-- STIMULATE INCREASED INFORMATION FLOW ON
QUESTIONS OF ENVIRONMENT, WHILE DEVELOPING OPPORTUNI-
TIES TO PROVIDE AMERICAN EXPETISE WHERE POSSIBLE,
ON A JOINTLY FINANCED BASIS.

--PERSUADE ITALIANS THAT INTERNATIONAL COOPER-
TION AND SOLIDARITY ARE NEEDED TO CONFRONT THE VAST
ECONOMIC AND POLITICAL QUESTIONS OF TODAY: ENERGY,
UNEMPLOYMENT, INFLATION, RECESSION.

-- INFORM THE ITALIAN PUBLIC ABOUT A RANGE OF
SECURITY PROBLEMS: MILITARY BALANCE, NATO, MBFR,
SALT AND THE WHOLE RANGE OF PROBLEMS CONNECTED WITH
GUARANTEEING A SECURE DEFENSE POSTURE FOR THE ATLANTIC
ALLIANCE.

-- DEVELOP A LONG-RANGE UNDERSTANDING IN ITALIAN

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INTELLECTUAL CLASSES ON THE QUESTIONS OF HUMAN
RIGHTS, SPECIFICALLY AS THE AFTERMATH OF CSCE AND
THE BEHAVIOR OF THE PARTICIPANT COUNTRIES.

38. TO DEMONSTRATE THE VIABILITY OF AMERICAN

POLITICAL, SOCIAL, ECONOMIC AND CULTURAL
INSTITUTIONS.

DURING THE BICENTENNIAL, WE LEARNED WHAT ADDITIONAL
RESOURCES COULD DO IN THIS AREA AND WE ARE DETERMINED
TO ATTEMPT A SERIOUS EXPANSION OF OUR IMPACT IN THIS
MISSION. THE UNITED STATES HERE IS SEEN THROUGH LEFT
LENSES; THIS COMBINES WITH TRADITIONAL ITALIAN SELF-
SUFFICIENCY AND INSULARISM TO MINIMIZE THE VALUE OF
THE AMERICAN EXPERIENCE. WITHIN THE LEFT CULTURE, WE
ARE TREATED WITH SKEPTICISM AT BEST, HOSTILITY MORE OFTEN.
WE HAVE MADE INROADS WITH THE LEFT CULTURE AND THERE ARE FOUNDA-
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TIONS UPON WHICH TO BUILD, BUT THERE IS MUCH TO BE DONE.

COURSES OF ACTION

--INCREASE ITALIAN UNDERSTANDING OF AMERICAN
WAYS OF CHANGE AND REMIND THEM THAT, FOR US, CHANGE IS
STENGTH.

-- INCREASE UNDERSTANDING OF THE DANGER OF IDEO-
LOGICAL APPROACHES TO CONTEMPORARY SOCIETY BY SHOWING
THE VALUE TO THE UNITED STATES OF OUR PRAGMATIC,
EMPIRICAL APPROACH TO PROBLEM-SOLVING.

-- CONVEY AN UNDERSTANDING OF THE STABILITY OF
OUR INSTITUTIONS AND THEIR DEPENDENCE UPON BROAD
PARTICIPATION, CONSTANT QUESTIONING, FREE INFORMATION
FLOW, AND OPENNESS TO CHANGE;

--PROJECT, THROUGH PROGRAMS IN THE FINE AND
PERFORMING ARTS, A SENSE OF EXCITEMENT ABOUT THE BEST
IN AMERICAN CREATIVE LIFE.

--DEVELOP IN ITALIAN UNIVERSITIES A HIGH-
CALIBRE SCHOLARLY CAPACITY TO STUDY THE UNITED STATES
IN THE THREE FIELDS WHICH COMPRISE AMERICAN STUDIES
(LITERATURE, HISTORY, GOVERNMENT).

-- BY DEVELOPING AWARENESS OF THE MORAL AND
PHILOSOPHICAL FRAMEWORK IN WHCIH GROWTH TAKES PLACE,
DAMPEN THE STRESS ON U.S. PROWESS AND PLACE IT INSTEAD
ON THE INCREASED AWARENESS OF THE COMMON DILEMMAS
THE WORLD FACES TODAY, THE NEED FOR SOCIAL CONTROLS
OVER TECHNOLOGY, AND FOR GREATER INFORMATION FLOW.

-- SEEK WAYS IN WHICH TO INCREASE THE FLOW OF
ITALIANS, ESPECIALLY STUDENTS, SCHOLARS AND MEDIA

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REPRESENTATIVES, INTO SITUATIONS PERMITTING IN-DEPTH
STUDY OF THE UNITED STATES.

-- BUILD UPON THOSE INTELLECTUAL LINKS BETWEEN ITALY AND THE
UNITED STATES WHICH ALREADY EXIST TO FOSTER DIALOGUE,
BOTH PRIVATE AND PUBLIC, ON THE SOCIO-POLITICAL AND
ECONOMIC ISSUES OF THE FUTURE.

39. PROMOTE PRODUCTIVE LINKAGES BETWEEN THE
SCIENTIFIC AND EDUCATIONAL INSTITUTIONS OF
ITALY AND THE UNITED STATES SO AS TO ENCOURAGE
A DEEPER FLOW OF TECHNOLOGY AND INFORMATION
BETWEEN THE TWO COUNTRIES AND A BETTER UTILIZA-
TION OF EACH COUNTRY'S RESOURCES FOR THE OTHER'S
ADVANTAGE.

CHANNELS INCLUDE NOT ONLY UNIVERSITIES, RESEARCH
INSTITUTIONS AND GOVERNMENT AGENCIES BUT THE BUSINESS
COMMUNITY, THE FOUNDATIONS, THE ENTIRE PRIVATE SECTOR
OF INTELLECT. FORMS OF EXCHANGE INCLUDE BILATERAL
SCIENTIFIC RESEARCH, ACADEMIC EXCHANGES, COMMERCIAL
FLOW OF HIGH-TECHNOLOGY PRODUCTS, TRAINING EXCHANGE, ETC.

COURSES OF ACTION

--SEEK TO BRING HARMONY BETWEEN ITALIAN AND
USG POLICIES AND PRACTICES RELATING TO SCIENCE AND
TECHNOLOGY.

-- MAINTAIN, PROMOTE AND DEVELOP BILATERAL
PROGRAMS IN ALL DISCIPLINES OF ACADEMIC LIFE, INCLUD-
THE HUMANITIES, THE SOCIAL SCIENCES, AND SCIENCE
AND TECHNOLOGY.

-- BRING THE VAST RESOURCES OF AMERICAN HIGHER
EDUCATION WITHIN REACH OF THOSE ITALIANS WHO ARE
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SEEKING TO RESTORE THEIR OWN EDUCATIONAL SYSTEM TO A
POSITION CONSONANT WITH THE NEEDS OF A MODERN
SOCIETY, WHILE SEEKING WAYS OF INCREASING THE FLOW
OF ITALIANS WHO SEEK INSTRUCTION IN AN AMERICAN
UNIVERSITY.

--LINK AMERICAN AND ITALIAN SCHOLARS IN JOINT RESEARCH PROJECTS, ESPECIALLY IN FIELDS OF VITAL COMMON INTEREST, SUCH AS ENVIRONMENT AND ECOLOGY, AND OF TRANSNATIONAL PROBLEM-SOLVING, SUCH AS NEW MODES OF THINKING ABOUT WORLD ORDER.

--MAKE ITALIAN POLICY-MAKERS AWARE OF ITALY'S GLARING INSUFFICIENCY IN ENGLISH LANGUAGE PROFICIENCY AND TO OFFER HELP IN BUILDING UP THIS CAPACITY, ONCE THE NEED IS RECOGNIZED.

--THROUGH CONTACTS WITH INDIVIDUALS AND INSTITUTIONS IN THE UNITED STATES AND ITALY, PROMOTE THE FULLER FLOW OF INFORMATION, BOTH SCIENTIFIC/TECHNOLOGICAL AND IN THE SOCIAL SCIENCES, BETWEEN THE TWO COUNTRIES.

40. ENCOURAGE AND ASSIST ITALY TO DEVELOP A GREATER CONSCIOUSNESS OF ENVIRONMENTAL PROBLEMS AND ISSUES AND TO WORK TOWARD THEIR RESOLUTION.

COMPARED TO MOST INDUSTRIALIZED COUNTRIES, ITALY LAGS BEHIND IN PUBLIC PERCEPTION OF ENVIRONMENTAL PROBLEMS AND IN EFFORTS TO DO SOMETHING ABOUT IT. TO A CERTAIN EXTENT THE FEW STEPS WHICH HAVE BEEN TAKEN HAVE

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RESULTED FROM EC-WIDE EFFORTS RATHER THAN ITALIAN INITIATIVES. GOVERNMENTAL INVOLVEMENT HAS BEEN MINIMAL, AND PRIVATE GROUPS HAVE BEEN LARGELY INEFFECTUAL AND OFTEN HIGHLY POLITICIZED, ALTHOUGH RECENT DISASTERS (NOTABLY THE CHEMICAL POLLUTION AT SEVESO) HAVE RESULTED IN INCREASED PUBLIC CONSCIOUSNESS. THE SITUATION IS ALL THE MORE UNFORTUNATE IN THAT ENVIRONMENTAL PROBLEMS THREATEN MANY OF ITALY'S MOST VALUABLE RESOURCES, MANY OF THEM CONNECTED WITH COUNTRY'S ARTISTIC TREASURES AND NATURAL BEAUTY, E.G., POLLUTION OF THE LAKES AND POLLUTION DAMAGE TO VENICE'S WORKS OF ART. AT THE SAME TIME, ITALY HAS NOT DEVELOPED AN AWARENESS OF THE NECESSITY OF TRADE-OFFS -- THE BEST EXAMPLE IS IN THE FIELD OF NUCLEAR ENERGY DEVELOPMENT, WHERE ECONOMIC CONSIDERATIONS DICTATE TOP PRIORITY TO SUCH A PROGRAM, WHEREAS ENVIRONMENTAL CONCERNS WOULD SUGGEST GOING SLOW.

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COURSES OF ACTION

-- URGE UPON THE GOI A MORE DIRECT INTEREST IN THE ENVIRONMENTAL QUESTION BY DIRECT EMBASSY EFFORTS AND THROUGH VISITS BY SENIOR U.S. GOVERNMENT OFFICIALS AND PROGRAMS BY USIS.

-- ENCOURAGE AND ASSIST THE EFFORTS OF PRIVATE ORGANIZATION IN ITALY THROUGH EXPANDED COOPERATIVE ARRANGEMENTS WITH U.S. ORGANIZATION.

OTHER ISSUES

IN STATE 41169, ASSISTANT SECRETARY HARTMAN ASKED FOR THE EMBASSY'S COMMENTS ON A SERIES OF SPECIFIC ISSUES. THOSE COMMENTS FOLLOWS:

NUCLEAR NON-PROLIFERATION

ALTHOUGH ITALY RATIFIED THE NPT IN 1975 AFTER SUBSTANTIAL DELAY AND HAS GENERALLY SUPPORTED US IN REGARD TO PROLIFERATION PROBLEMS, IT STILL HARBORS SOME SERVOATIONS: RETENTION OF A NUCLEAR OPTION FOR THE DEFENSE FORCES OF A FUTURE UNITED EUROPE; PARTICIPATION IN THE TECHNOLOGICAL ASPECTS OF PEACEFUL NUCLEAR EXPLOSIONS SHOULD IT BECOME POSSIBLE TO DIFFERENTIATE THEM FROM WEAPONS. NEITH ASPECT IS A LIVE ISSUE NOW OR IS LIKELY TO BECOME ONE IN

THE FORESEEABLE FUTURE.

HOWEVER, ITALY'S COMMITMENT TO AN AMBITIOUS PROGRAM OF NUCLEAR ENERGY GENERATION IS DEPENDENT TO A GREAT EXTENT ON U.S. CREDITS AND ON THE EXPECTATION THAT THE UNITED STATES WILL TRANSFER THE NECESSARY TECHNOLOGY AND ASSURE ACCESS TO FUEL AND ENRICHMENT

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FACILITIES. AS U.S. DOMESTIC NUCLEAR ENERGY POLICIES BECOME MORE RESTRICTIVE, THEIR IMPLICATIONS FOR ITALY'S PURSUIT OF THE NUCLEAR ALTERNATIVE WILL BE A HIGHLY SENSITIVE ISSUE IN OUR RELATIONS WITH THE TOI. WE SHOULD CONTINUE OUR FRANK CONSULTATIONS WITH THE ITALIANS, ATTEMPTING TO FIND WAYS TO MEET THEIR REQUIREMENTS WHILE ENCOURAGING THEM TO JOIN MORE ACTIVELY IN THE EFFORT TO HALT THE PROLIFERATION OF WEAPONS-USEABLE NUCLEAR MATERIALS.

CONVENTIONAL ARMS TRANSFERS

ITALY WOULD JOIN IN A NATO, EC, OR UN CONSENSUS ON THE DESIRABILITY OF RESTRICTING, REDUCING, OR ADDING SOME ELEMENT OF CONTROL TO CONVENTIONAL ARMS SALES. SHOULD, HOWEVER, NEGOTIATIONS BEGIN TO PRESAGE REDUCTION OF ITALIAN ARMS EXPORTS, THE ITALIAN REFLEX WILL BE DEFENSIVE. THE ITALIAN ARMS INDUSTRY COMPRISES ONLY A SMALL PART OF THE ECONOMY BUT IS A SIGNIFICANT FOREIGN EXCHANGE EARNER. IT ALSO PROVIDES A USEFUL COMMERCIAL RELATIONSHIP WITH A VARIETY OF DEVELOPED AND UNDERDEVELOPED COUNTRIES. MOREOVER THE INDUSTRY IS SENSITIVE IN DOMESTIC TERMS SINCE ITS EMPLOYEES BELONG FOR THE MOST PART TO THE AGGRESSIVE (COMMUNIST-CONTROLLED) NATIONAL METALWORKERS UNION. THE METALWORKERS, OTHER UNIONS, AND THEIR PARLIAMENTARY ALLIES, WOULD STRONGLY OPPOSE ANY AGREEMENT WHICH MIGHT REDUCE DOMESTIC PRODUCTION AND INCREASE THE NUMBER OF UNEMPLOYED OR UNDEREMPLOYED.

HOWEVER, WERE THERE EVENTUALLY TO EMERGE A PROPOSED AGREEMENT WITH SUPPORT IN A BROAD INTERNATIONAL CONSENSUS, WERE ITS TERMS NOT INEQUITABLE FOR ITALY, AND WERE IT ENFORCEABLE, THE GOI COULD PROBABLY BE SWUNG INTO A POSITION OF SUPPORT.

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HUMAN RIGHTS AND CSCE

IN GENERAL, ITALY SHARES OUR VIEWS ON THESE SUBJECTS, AND WILL QUIETLY SUPPORT OUR EFFORTS. HOWEVER, ITALY'S DIFFICULT POLITICAL BALANCE PLACES SERIOUS CONSTRAINTS ON INITIATIVES THAT THE ITALIANS MIGHT WISH TO MAKE IN THESE AREAS. SOME CONCERNED ITALIAN OFFICIALS FEEL THAT THE INITIAL MOVES OF THE NEW ADMINISTRATION IN THE HUMAN RIGHTS AREA HAVE REFLECTED AN EXCESS OF ZEAL WHICH MAY PROVE TO HAVE UNDESIRABLE EFFECTS ON DETENTE, ON CIVIL LIBERTIES IN WARSAW PACT COUNTRIES, AND IN TERMS OF UNFULFILLABLE EXPECTATIONS. ON THE OTHER HAND, SOME POLITICAL FORCES HAVE APPLAUDED OUR MOVES NOT ONLY BECAUSE THEY CONSIDER THEM INHERENTLY JUST BUT ALSO BECAUSE THEY SEE THE PROBLEMS THAT THE FOCUS ON HUMAN RIGHTS VIOLATIONS IN THE WARSAW PACT COUNTRIES CREATES FOR THE ITALIAN COMMUNIST PARTY.

EUROCOMMUNISM

AS A REGIONAL PHENOMENON, EUROCOMMUNISM IS A SUBJECT OF CONCERN FOR OUR RELATIONS WITH ITALY.

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RECENT DEVELOPMENTS, PRIMARILY THE SO-CALLED MADRID SUMMIT, HAVE DEMONSTRATED THE LIMITED AREAS OF CONVERGENCE AMONG THE THREE PARTIES (PCI, PCF, AND PCE) THAT TOGETHER COMPRISE "EUROCOMMUNISM". GIVEN THE LITTLE THEY HAVE IN COMMON AND THE EPHEMERAL CHARACTER OF ITS EXISTENCE, IT IS NOT THE GHOST OF EUROCOMMUNISM THAT POSES A PROBLEM, BUT RATHER THE REALITY OF A STRONG ITALIAN COMMUNIST PARTY WHICH RECIEVED MORE THAN A THIRD OF THE TOTAL VOTES IN THE LAST NATIONAL ELECTIONS AND WHICH IS IN A STRONG POSITION TO CONDITION VIRTUALLY EVERY ASPECT OF ITALIAN LIFE.

MULTILATERAL ISSUES

IN MULTILATERAL BODIES, THE UN, NATO, COMMON MARKET, ITALY ATTEMPTS TO ASSOCIATE ITSELF IWTH THE
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GENERAL CONSENSUS RATHER THAN PLAYING A LEADING OR DISRUPTIVE ROLE. IT USUALLY SEEKS TO MINIMIZE THE RISKS INHERENT IN AN INDEPENDENT POLICY LINE. ON MOST SIGNIFICANT ISSUES, ITALY ALIGNS ITSELF WITH THE EUROPEAN COMMUNITY WHILE STRIVING TO AVOID OPPOSING THE UNITED STATES. SHOULD ADIFFERENCE DEVELOP BETWEEN THE TWO, ITALY CAN BE EXPECTED TO WORK FOR A COMPROMISE SO AS TO NOT BE PLACED IN THE POSTION OF JEOPARDIZING ITS RELATIONS WITH ONE SIDE OR THE OTHER.

ENERGY

WITH INSIGNIFICANT DOMESTIC ENERGY RESOURCES, ITALY WAS ONE OF THE INDUSTRIAIZED NATIONS MOST AFFECTED BY THE OIL PRICE RISE. ITALY HAS SOUGHT TO ALLEVIATE ITS ENERGY PROBLEMS THROUGH CONSUMING-COUNTRY COOPERATION, IN THE IEA, AND BILATERALLY IN THE US-ITALY ENERGY WORKING GROUP. THE CENTER-PIECE OF ITALY'S EFFORTS TO REDUCE DEPENDENCE ON IMPORTED OIL IS A 12,000 MW NUCLEAR PROGRAM (USING US REACTOR DESIGNS) FOR WHICH ITALY EXPECTS THE UNITED STATES TO SUPPLY A MAJOR PORTION OF THE FOREIGN FINANCING. ITALY'S MAJOR CONCERNS ABOUT U.S. ENERGY POLICY ARE RESTRICTIONS ON THE EXPORT OF NUCLEAR TECHNOLGY AND FUELS. GARDNER

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